



DEFENSE LOGISTICS AGENCY
DEFENSE CONTRACT MANAGEMENT COMMAND
8725 JOHN J. KINGMAN ROAD, SUITE 2533
FT. BELVOIR, VIRGINIA 22060-6221



IN REPLY
REFER TO

AQOD

MAR 3 1997

**MEMORANDUM FOR COMMANDERS, DEFENSE CONTRACT MANAGEMENT
DISTRICTS**

**SUBJECT: Forward Pricing Rate Agreements (FPRAs) and Return on Investment
(ROI) Reporting**

Defense Contract Management District East (DCMDE) asked us in a February 7, 1997 memorandum, subject as above, to reinstate FPRAs as an element of Return on Investment (ROI) cost avoidance reporting.

We dropped FPRAs from 1997's ROI reporting because we were having difficulty accurately quantifying the cost avoidances FPRAs actually achieve. Our "original" 1994 method used for reporting FPRA cost avoidances is basically the same one suggested by DCMDE in their memorandum--i.e., report current and future years cost avoidances in the month the FPRA is executed. We stopped using that approach because we found out that FPRAs typically weren't staying in effect for more than a few months. By "frontloading" the reporting of several years' worth of cost avoidances from agreements that were lasting only several months, we were leaving ourselves open to charges of deliberate overreporting. Revised reporting guidance for 1996 helped alleviate the problem, but did not completely solve it. Guidance proposed for 1997, but never issued, would have theoretically solved the problem entirely, but would have created a reporting burden so onerous that it was unachievable. Accordingly, we decided that the safest course for DCMC to follow would be to not include FPRAs in ROI reporting.

An alternative approach for reporting FPRA avoidances outlined by DCMC Indianapolis (see the attachment to DCMDE's memorandum) seems to us to be a restatement of what our current guidance for reporting price negotiation savings and avoidances already requires. When we actively participate as a member of a contracting office pricing team, we will report the resulting negotiation savings or avoidances--both direct and indirect costs--as the difference between the proposed and negotiated prices. We don't see any difference between that and DCMC Indianapolis's proposal.

While FPRA cost avoidances are no longer being reported as part of ROI, the importance of FPRAs to our customers is recognized in the FY 1997 DCMC Performance



Plan. We will continue to monitor and evaluate our FPRA performance, as reported in accordance with the FY 1997 DCMC Metrics Guidebook, Metric 2.2.1.1.



JILL E. PETTIBONE
Executive Director
Contract Management Policy

Attachment



DEFENSE LOGISTICS AGENCY
DEFENSE CONTRACT MANAGEMENT COMMAND
DEFENSE CONTRACT MANAGEMENT DISTRICT EAST
495 SUMMER STREET
BOSTON, MA 02210-2184

IN REPLY
REFER TO:

FEB - 7 1997

DCMDE-OTBP

MEMORANDUM FOR AQO

SUBJECT: Bi-Monthly Cost Avoidance Reporting FPRAs

In the letter from Colonel Merkwan, DCMDE-GID, dated December 12, 1996, on the above referenced subject, he states his opposition to the current policy of dropping the reporting of these cost avoidances and has offered an alternative approach.

It is recommended that Headquarters reinstate the cost avoidance reported bi-monthly in total. Dollar cost avoidance resulting from FPRAs/FPRRs is significant in dollar value and should be captured in the bi-monthly report. A sample of the original quarterly report in which FPRA cost avoidance was reported is attached. Total cost avoidance - current plus out years should be reported in total, in the monthly report in which the FPRA/FPRR was issued. This will avoid confusion and errors in future reporting. If you have any questions concerning this subject, please contact Mr. Jack McCarthy, (617) 753-2624.

GEORGE RIZZO, JR.

Acting Director
Operations Support

Attachments

cc:

DCMDE-M Angelo A. Caterino
DCME-GID John A. Merkwan, LTC, USA





DEFENSE LOGISTICS AGENCY
DEFENSE CONTRACT MANAGEMENT COMMAND
DEFENSE CONTRACT MANAGEMENT DISTRICT EAST
495 SUMMER STREET
BOSTON, MA 02210-2184

IN REPLY
REFER TO: DCMDE-MB

31 DEC 1996

MEMORANDUM FOR SLFA COMMANDERS

SUBJECT: Bi-Monthly Cost Savings/Cost Avoidance Report

The Bi-Monthly Cost Savings/Cost Avoidance Report for the October-November, 1996 period, submitted to AGOD on December 27, 1996 is attached for your review. In some cases the field reports were adjusted for savings/avoidance which did not meet the new guidelines. The new guidelines do not provide for inclusion of Forward Pricing Rate Agreements (FPRAs) or the "Other" category. Headquarters is addressing the FPRA issue as well as some other savings/avoidance issues raised by the field.


Field reports are due for receipt in DCMDE-MB by the fifth working day after the end of the two month period. The report for the December 1996 to January 1997 period will be due on February 7, 1997.

Inquiries relative to the program, submission of reports, etc., should be addressed to Maurice O'Connor, DCMDE-MBB. He may be reached at: DSN: 955-3641; Commercial Phone: (617) 753-3641; FAX: (617) 753-3197; or MS-Mail: baf4410@dcrb.dla.mil.

Inquiries regarding definitions, specific operations, etc., should be addressed as follows:

<u>Category</u>	<u>Name</u>	<u>Division</u>	<u>Telephone Number</u>
(A) Contracting Officer Price Negotiations	Bill Peterson	OTBP	(617)-753-4429
(B) Process Improvements	Lynn Thorpe	OPP	4268
(C) Other Contractual Actions	Jack McCarthy	OTBP	4624
(D) Contractor Insurance/Pension Reviews	Brian Carroll	OTBC	3129
(E) Product Noncompliance Reported by CARs	Paul Strong	OTWE	4242
(F) Government Property Reutilization	Marie Shea	OTBG	4279
(G) Litigation	Theresa Levesque	G	4353

Please provide a copy of this letter with attachment to your Cost/Savings/Cost Avoidance POC.

for 
ANGELO A. CATERINO
Director, Planning and
Resource Management

Attachment

COST SAVINGS/COST AVOIDANCE												PAGE 1 of 7											
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please prepare response
for to study & letter to HQ
if needed

DEFENSE LOGISTICS AGENCY
DEFENSE CONTRACT MANAGEMENT DISTRICT EAST
DEFENSE CONTRACT MANAGEMENT COMMAND, INDIANAPOLIS
8899 EAST 56TH STREET
INDIANAPOLIS, INDIANA 46249-5701



IN REPLY
REFER TO DCMDE-GID

December 12, 1996

M - A
→ O
what do
you guys
think?
I want
to see

(12/19)

MEMORANDUM FOR DCMDE-D

SUBJECT: Cost Savings/Avoidance Reporting - FPRA's

The Forward Pricing Rate Agreement (FPRA) category was recently eliminated from the Return On Investment (ROI) Ground Rules. I have seen your correspondence requesting DCMC-AQO relook the wisdom of this decision. I hope that you will be able to continue to press this point with DCMC. The work we do with FPRAs represents at least \$2 Million in legitimate and verifiable savings that goes unreported every month at DCMC Indianapolis. A recent metrics handout from DCMC HQs states, "Customers consistently say that one of the most important things we can do to help them is to get FPRA's in place." We agree and suggest that the savings from DCMC efforts to negotiate FPRA's continue to be reported as a way to measure our success in this area. Not capturing this data seems self-defeating in these times when we are occasionally tasked to explain how we are "value added."

Here is an alternative approach. If the FPRA category is truly deleted from ROI reporting, then capturing some of the savings under the category "Contracting Officer Price Negotiations" may be another option. For example, if an FPRA is negotiated in conjunction with a large PCO procurement, and we are part of the negotiating team, it would appear that the resultant savings/avoidance, as a result of a reduction in the rates, would be a reportable savings/avoidance under this category.

Regardless of the methodology, it is important that our efforts to reduce costs, through the negotiation of rates, is included in some form.

JOHN A. MERKWAN
Lieutenant Colonel, USA
Commander

ERM
OTG 12/17/96
What do we think?
why were FPRA's eliminated?